

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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**M**erry Christmas from Uncle Bill Gates! On July 20, 2004, Microsoft Corporation announced a one-time dividend of \$3.00 per share. This early Christmas gift will be paid on December 2, 2004. This payment should not only arrive in plenty of time for holiday spending, but also before the possible loss of the 15% tax rate on dividends.

**W**hile not everyone will receive a check from Microsoft, the expected payout will be large enough to have a significant impact on the U.S. economy. Calculating the size of the impact has had some economic analysts working harder than North Pole elves five minutes before quitting time on Christmas Eve. In this *Outlook*, we highlight a study performed by one of the nation's most respected economists, Cynthia Latta. Ms. Latta is the Managing Director of Global Insight, one of the nation's premiere economic forecasting firms.

**T**he size of the payout is huge. Microsoft has about 10.8 billion outstanding shares, so the total package is worth an estimated \$32.4 billion. (Yes, billion.) This is equivalent to about \$130 billion at an annual rate. To put this in perspective, it is just over 1% of GDP. Although there are good reasons to believe that just a portion of the total will be spent, it is estimated the amount in question will boost real GDP growth by 0.2 percentage point. This should make it clear why economists are giving this matter so much attention.

**T**o estimate the impact of the dividend payout, Ms. Latta combined evidence on the ownership of Microsoft shares with information from the Federal Reserve. This yielded an estimate of 35.5% held by U.S. individuals either directly or through mutual funds. On a dollar basis, the \$32.4 billion is reduced to \$24.4 billion to account for the amount that will be retained by the corporate sector (\$4.6 billion) and distributed to foreign dividend holders (\$3.4 billion). The net dividend payout of \$24.4 billion will be split between state and local governments and individuals. The government portion is estimated to be \$0.3 billion, leaving \$24.1 billion to individuals. Of the estimated \$24.1 billion destined for individuals, about 5% will go to public employee retirement funds and an unknown share into 401k and other individual retirement accounts. Also, some portion of the amount accruing to individuals through mutual funds will be automatically reinvested. The Microsoft dividend helps the dividend, interest, and interest component of U.S. personal income grow 35% (annual rate) in the last quarter of this year.

**I**t is estimated that insiders (who own about 15% of the stock) would spend about 5% of their windfall. Individuals who receive their payments directly through checks are anticipated to spend 20% of their dividend payment and individuals holding Microsoft stock through a mutual fund would spend

10%. Combined, this would be just over \$2 billion, or \$8 billion at an annual rate. It should be pointed out that the timing of the payout has affected these estimates. The payout is coming just before Christmas, and holders of the stock have several months to consider what to do with the dividend. In some ways the payout is like a tax refund. People know it is coming and they know what they will do with it when it arrives.

**U**nfortunately, this gift will have some strings attached. Income tax will be due on part of the dividends paid to individuals. The collective taxes due are \$2.3 billion (\$9.3 billion at an annual rate). However, its impact will not be registered this year. It will be felt in the first quarter of next year when the taxes are paid.

**O**ne question that has arisen is how Microsoft will raise the \$32.4 billion to play Santa? It is assumed the company keeps cash in treasury bills and other short-term instruments, and has enough coming due in time to cover the payout. Without the dividend, though, \$32.4 billion would have been rolled over. But absent the dividend, pension funds; mutual funds; and insurance companies should take up most of the slack. However, there will be a net loss of supply to the credit markets equal to the amount individuals choose not to reinvest. That amount, however, is too small relative to the total size of the market to worry about.

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## General Fund Update

As of September 30, 2004

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY05 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	968.0	207.4	212.6
Corporate Income tax	118.9	26.6	32.4
Sales Tax	910.8	235.7	249.4
Product Taxes <sup>1</sup>	21.9	5.9	6.1
Miscellaneous	105.7	27.9	28.1
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,125.3</b>	<b>503.4</b>	<b>528.6</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2004

**G**eneral Fund revenue continued to outperform expectations in September, coming in \$10.5 million higher than expected. This brings the fiscal year to date excess to \$25.2 million in just three months. Over half of September's excess was due to strong corporate income tax collections, and the rest was spread across the other four revenue categories. September is the first month this fiscal year that all revenue categories exceeded expectations.

**I**ndividual income tax collections were \$1.2 million higher than expected in September, and are now \$5.3 million higher than expected on a year-to-date basis. Filing collections were \$2.3

million higher than expected and refunds were \$1.6 million lower than expected in September, and together they more than offset withholding collections that were \$2.8 million lower than expected for the month. Although September was a disappointing month for withholding collections, they are still ahead of expectations by \$0.5 million as of the end of September.

**C**orporate income tax collections were \$5.4 million higher than expected in September, and are now \$5.8 million ahead of fiscal year-to-date expectations. September's strength was concentrated on the receipt side, with filing payments that were \$3.0 million and estimated

payments that were \$2.5 million higher than expected.

**S**ales tax collections were \$2.3 million higher than expected in September. This is a cooling from the hot pace of July and August, but it still extends the year-to-date excess to \$13.6 million.

**P**roduct taxes were slightly above target in September on strong cigarette tax collections. Miscellaneous revenue was \$1.6 million higher than expected in September as a consequence of strength in the insurance premium tax, interest earnings, and the estate tax.